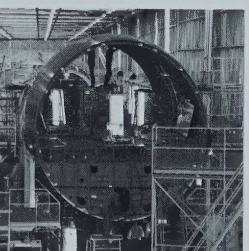
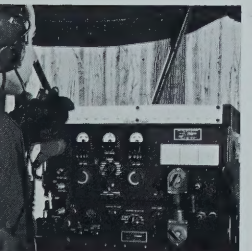
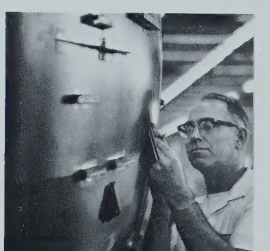
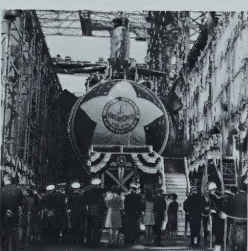
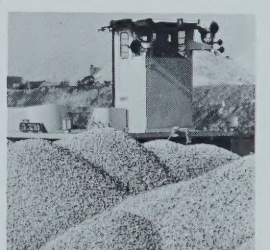
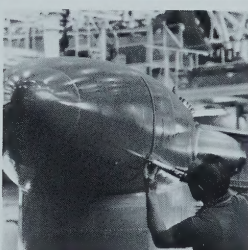
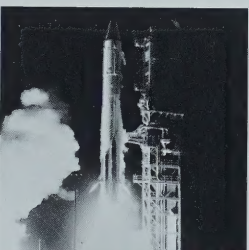
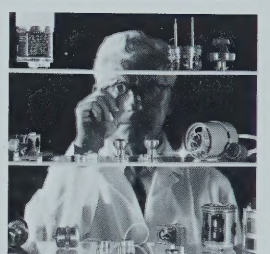
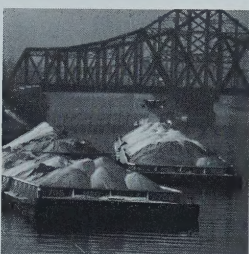
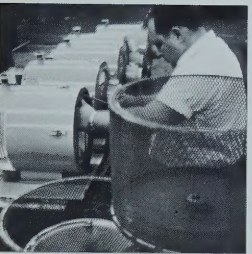
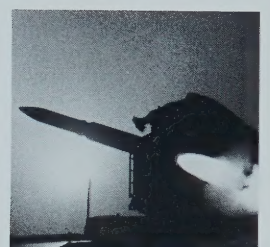
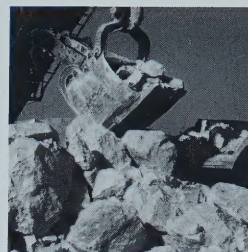
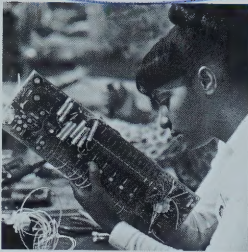


*File*  
General Dynamics Annual Report 1969

AR25





# General Dynamics report for the year ended December 31, 1969

| <b>Results in Brief</b> (Dollars in thousands, except per share amounts) | <b>1969</b> | <b>1968</b> |
|--------------------------------------------------------------------------|-------------|-------------|
| Net Sales                                                                | \$2,508,755 | \$2,662,238 |
| Income before Extraordinary Item                                         | 2,531       | 29,756      |
| Extraordinary Item                                                       | —           | 8,927       |
| Net Income                                                               | 2,531       | 38,683      |
| Per Common Share (on average number of shares outstanding)               |             |             |
| Income before Extraordinary Item                                         | .24         | 2.83        |
| Extraordinary Item                                                       | —           | .85         |
| Net Income                                                               | .24         | 3.68        |
| Share Owners' Equity                                                     | 31.17       | 31.94       |
| Expenditures for Property, Plant and Equipment                           | 50,032      | 60,134      |
| Backlog of Funded Orders at Year End                                     | 1,300,000   | 2,089,000   |
| Number of Employees                                                      | 103,600     | 101,400     |

## To the Share Owners:

Consolidated net sales of General Dynamics Corporation and subsidiaries in 1969 were \$2,508,755,000. This compares with sales in the preceding year of \$2,662,238,000.

Consolidated net income for 1969 was \$2,531,000, equal to 24 cents per common share. Net income in 1968 was \$29,756,000, equivalent to \$2.83 per common share, exclusive of an extraordinary gain of \$8,927,000, or 85 cents per common share.

Earnings were depressed by writeoffs taken in the first six months of the year of excess costs on certain long-term naval surface ship and submarine construction contracts. Earnings in the second half of the year, after losses at Canadair Limited and Stromberg DatagraphiX, more than offset a net loss of \$19,372,000 in the first six months of the year.

As we have pointed out in the past, our major defense programs are, in the main, support to the country's overall security posture and we have produced very little hardware for use in Vietnam. The future course of that conflict, by itself, is expected to have no appreciable effect on our major programs.

However, 1969 saw the start of a major readjustment for defense contractors. Cutbacks in expenditures necessitated reprogramming by the government of existing contracts. Reductions in new appropriations led to deferral or delay of both research and development and production. Such changes have had an adverse effect on profit margins worsened by steadily rising costs of money, labor and material.

We are keenly aware of the importance to the nation of arresting the inflationary spiral and we recognize the need for a careful review of the type and quantity of modern weapons required to support our essential military posture. These two factors, inflation and the intensive review of military hardware programs, had an unsettling effect in 1969 and may be expected to place a further strain on the defense industry as it adjusts to lower levels of research, development and production.

Anticipating these trends, we have been attentive to the need for maintaining a simplified organizational structure and a constant effort to improve our competitive position by reducing costs. At the same time, continued emphasis has been placed on the expansion of our commercial enterprises.

On a group-by-group basis, our financial results were as follows:

**The Aerospace Group**, which comprises the Fort Worth, Convair, Electronics and Pomona divisions and Canadair Limited, had sales of \$1.9 billion in 1969 compared to \$2.0 billion in 1968, and net income of \$32.6 million in 1969 compared to \$52.4 million in 1968.

**The Marine Group** (Electric Boat division and Quincy Shipbuilding division) had a net loss of \$46.3 million in 1969 compared to \$38.5 million in 1968. Writeoffs in both years were partially offset by profitable business within the Marine Group. Sales were \$268 million in 1969 and \$276 million in 1968.

**The Resources Group**, including Material Service Corporation, Marblehead Lime Company, Freeman Coal Mining Corporation and The United Electric Coal Companies, increased earnings in 1969 to \$10.9 million compared to \$8.8 million in 1968. Earnings in 1968 were after a charge of \$1.3 million to cover the abandonment of certain obsolete facilities. Sales volume of \$151 million remained constant.

**Asbestos Corporation Limited**, in which General Dynamics holds 54 percent ownership, had a 26 percent earnings increase in 1969. It earned \$6.1 million (Canadian) on sales of \$50 million in 1969, compared to \$4.9 million on sales of \$44 million in 1968. Asbestos Corporation's 1969 sales from February through December are consolidated in General Dynamics results for 1969 but only 54 percent of its net income, or \$3.3 million (U.S.), is consolidated.

**Stromberg DatagraphiX**, which is developing a new market supplying



computer output microfilm equipment to a wide range of businesses, increased sales to \$27 million in 1969 from \$17 million in 1968. Its net loss for the year—\$6.0 million compared to \$3.4 million in 1968—represents part of the price of developing a product line, sales and service force and production capacity, and the high initial costs of putting equipment on lease in such an expanding market.

**Stromberg-Carlson** increased its sales and earnings for the fifth consecutive year. Stromberg-Carlson produces a wide range of communications systems including telephones, switchboards, central office switching systems, transmission equipment and other equipment for both voice and data communications. It had net income of \$7.2 million in 1969, compared to \$6.3 million in 1968, and sales of \$129 million in 1969 compared to \$121 million in 1968.

**Major Programs.** There was a decline in sales volume and profits at all aircraft and space divisions but the largest single factor in the Aerospace Group's earnings decline in 1969 was a loss at Canadair Limited, which was caused primarily by losses on our subcontract for the C-5A aircraft and excess costs for development

of the CL-215 amphibious aircraft.

By the end of 1969, more than 200 F-111s had been produced under the contract that calls for a total of 493 aircraft. Production is continuing on both strategic and tactical versions of the F-111 and we have contracts for production running through the middle of 1972. The need for the capabilities available in the F-111 have been repeatedly affirmed by the United States Air Force and we are confident it will be a mainstay of our tactical and strategic air forces for many years to come.

In February of this year, Secretary of Defense Laird indicated the 1971 budget includes requests for funds for procurement of additional F-111s. He said a final decision would depend on further evaluation of the program by the Air Force.

Production began late in the year on the DC-10 fuselage components that we are producing under subcontract to McDonnell Douglas Corp. First components were delivered to McDonnell Douglas early in 1970. We are producing all of the fuselage, except the nose and tail sections, for this advanced commercial trijetliner, which features a wide-body fuselage for greater passenger comfort.

Centaur's role as a primary space vehicle of the future was

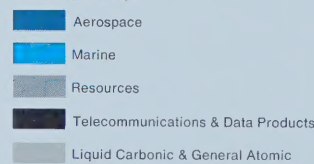
strengthened when the National Aeronautics and Space Administration awarded us a contract to design and build the first of a new series of improved Centaurs.

The last of the Quincy Shipbuilding division's four nuclear submarines was completed and delivered early in 1969. These submarines, two of which were under contract when we acquired the shipyard, had adversely impacted operations as a result of schedule stretchouts to incorporate major changes in design.

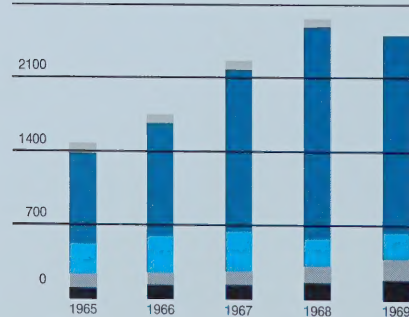
In the start-up years of 1965-1967 at Quincy, we contracted to build 14 large naval surface ships. These ships presented costly difficulties associated with first-of-a-kind construction for Quincy of four types of vessels—ammunition ships, fleet replenishment ships, submarine tenders and landing ships. With the delivery of the first submarine tender early in 1970, we have now delivered three out of four of the first-of-a-kind vessels on which we have taken writeoffs in the past three years. The first of the fourth class, the landing ship, has been launched and is scheduled for delivery this year.

This further progress on the construction of naval surface vessels raises our confidence in the accuracy

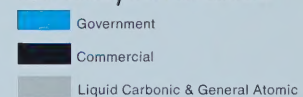
**Sales by Group**



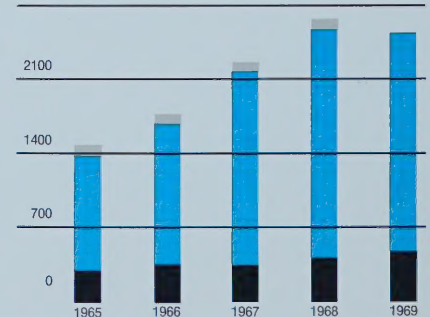
\$2800 millions



**Government / Commercial Sales**



\$2800 millions





of our earlier estimates of the cost of completing these contracts, which were the basis for the writeoffs taken during the first half of 1969.

Management together with its independent consultants believe the company has grounds for filing claims for reimbursement by the government of an undetermined portion of costs incurred on certain shipbuilding contracts in excess of contract values. During the year, we started the extensive work necessary to prepare claims, which we will begin to submit later this year.

Operations at our other marine facility, Electric Boat division, improved considerably in 1969. We delivered four new submarines including two prototypes—NR-1, the first nuclear-powered research submarine, and USS *Narwhal*, a new type of attack submarine.

We started 1970 with a backlog of contracts for construction of nine new submarines, four submarines scheduled for conversion to Poseidon missile capability and an assortment of overhaul and repair work. Our submarine work is now divided about evenly between new construction and conversion and overhaul.

In 1966 we were awarded a firm fixed-price contract to construct four attack submarines. Three of these

submarines have been launched and are scheduled to be delivered this year. The fourth is scheduled for delivery in 1971. With this firm fixed-price work largely behind us, all of the other submarines now under contract will be built under fixed price-incentive contracts, which are more appropriate for the construction of advanced systems.

Recent statements by leading Department of Defense spokesmen and by the President indicate future growth in shipbuilding. The Soviet Union's seapower is growing rapidly while more than half of the United States Navy fleet and nearly 75 percent of the merchant marine fleet is 20 years of age or older. We have the facilities and the diverse technical skills to design and construct sophisticated vessels, both surface ships and submarines, for military and merchant marine use.

During the year, we began construction of the first of three barge-carrying cargo ships for Lykes Bros. Steamship Company, Inc. We also proposed to the oil industry the construction of nuclear-powered submarine tankers to carry oil from Alaskan oil fields to the East Coast of the United States.

New attitudes toward defense spending and the lower levels of

planned procurement by the Department of Defense bring into focus the company's inherent strength in the sound, steady growth of its commercial businesses.

We continued to strengthen our Resources Group business by adding new facilities and discontinuing less profitable operations.

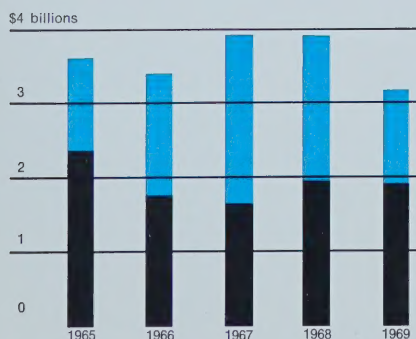
Additional aggregate reserves were acquired at four of nine operating locations and a new Redi-Mix concrete distribution yard was opened in the fast-growing area west of Chicago. Three low-profit distribution yards were closed, as was an unprofitable Materialite concrete block plant.

The steel industry's continuing conversion from open hearth furnaces to basic oxygen furnaces was responsible for high demand for lime, which we were able to meet because of expansion of our lime production capability in the past several years.

A new kiln began operation at Darlington Brick to manufacture standard red face brick to supplement the higher-priced custom color line of glazed and face brick. The brick business was expanded by the purchase of Powell & Minnock Brick Works, Inc. Located near Albany, N.Y., Powell & Minnock is a major manufacturer of common brick for

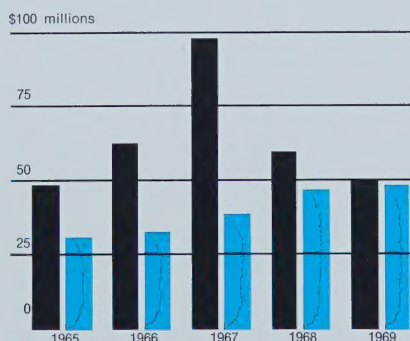
#### Backlog of Orders

Funded  
Unfunded



#### Capital Expenditures, Depreciation & Amortization

Capital Expenditures  
Depreciation & Amortization





metropolitan New York City construction markets.

Our coal production increased over 1968 levels but was again hampered by work stoppages caused by labor difficulties, miner absenteeism and rail car shortages. There was continued progress at our new Orient No. 6 coal mine, which is scheduled to reach its designed annual production rate of three million tons of coal in 1970.

We increased to 54 percent our ownership of the outstanding common shares of Asbestos Corporation Limited. This has already proven to be a sound investment, and Asbestos Corporation promises to continue to grow. This year it will increase by more than 11 percent its overall ore milling capacity to help satisfy the growing demand for asbestos.

Plans have been substantially completed for development of another large ore deposit in northern Quebec, believed to be one of the richest asbestos ore deposits in North America.

During the year, Stromberg DatagraphiX increased its branch offices from 11 to 25. It also filled out its product line with systems that allow the user to record data on either microfilm or microfiche without costly external operations and with new tape drives that offer complete computer-to-microfilm-to-hardcopy systems.

Reports that take hours to print on paper can be printed by DatagraphiX equipment on film in minutes and these microfilmed reports prove easier and cheaper to use, store and ship. Major users include agencies of the United States Government, financial institutions, airlines, utilities, auto manufacturers, oil companies and educational institutions.

In 1969 Stromberg-Carlson began to manufacture and install electronic telephone switching systems. The first installations of this new generation of telephone equipment were made in Ohio for the Mid-Continent Telephone Corp. In Florida, Disney World chose this advanced system to provide the communication for its vast recreational complex. This will be the world's first all-electronic

telephone company, which will include additional electronic private branch exchanges and the larger electronic switching center. A new facility is being built at the Rochester, N.Y., plant to produce specialized integrated circuits for use in electronic products.

Electromechanical switching products and related equipment continued to represent the major portion of sales. Installation of these telephone exchange systems averaged nearly one every working day in 1969.

**Organization.** General Dynamics strengthened its management group considerably in 1969 with the addition of two new vice presidents. We were pleased to add to our officers Dr. George E. Mueller, former deputy administrator of the National Aeronautics and Space Administration, and Lloyd Bergeson, new general manager of our Quincy Shipbuilding division.

Dr. Mueller's distinguished background includes responsibility for the planning, direction, execution and evaluation of NASA's overall manned space flight program. Mr. Bergeson, a veteran shipbuilding executive, returned to General Dynamics where he had previously spent 11 years as an executive at the Electric Boat division.

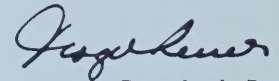
We were greatly saddened during the year by the death of Donald N. McDonnell. Mr. McDonnell became a director of the company in 1954 when Consolidated Vultee Aircraft Corporation, of which he had been a director since 1941, was merged into General Dynamics.

The past year was a severe test for companies such as ours that have heavy commitments to defense production. The large writeoff we took at midyear to recognize excess costs in our shipbuilding operations should not obscure the fact that delivery schedules were met on a variety of important weapons systems for national defense and that we have strengthened our management, streamlined our operations and maintained intact our distinctive technological character.

We expect more challenges in 1970

as the Department of Defense continues its careful review of the proper defense posture for the country and as the effects of inflation persist.

We believe, however, that the company's established position as a developer and producer of advanced technical systems for the armed services and other agencies and its soundly based and growing commercial businesses provide the strength and the resilience needed to face these challenges effectively, and to continue to diversify and grow.



Roger Lewis, President



## Aerospace

By the end of 1969, 230 F-111s had been delivered and had flown more than 50,000 hours.

F-111 versions in production at year-end were the United States Air Force's F-111E and F-111D tactical fighter-bombers for the Tactical Air Command and FB-111A strategic bomber for the Strategic Air Command.

First deliveries of two F-111 versions were made in 1969. The Strategic Air Command accepted the FB-111A strategic bomber and the Tactical Air Command accepted the F-111E fighter-bomber.

The last group of F-111A fighter-bombers was delivered during the year and production started on the F-111D fighter-bomber, which features advanced Mark II avionics.

A new version—the F-111F—

entered development in 1969. The F-111F will be similar to the F-111D but it will feature simpler avionics and a new engine.

In late December an F-111 crashed during a training flight near Nellis Air Force Base, Nevada. The accident was the result of a structural failure of the left wing stemming from a pre-existing defect in the steel used in a pivot fitting where the wing joins the fuselage. This was not a fatigue failure nor did it indicate a faulty design.

Following this accident, the Air Force suspended flight of most of the F-111 fleet to develop procedures for inspecting the fleet against similar defects.

Inspection methods used throughout the manufacturing process for this steel part were those customarily employed throughout the military and commercial aircraft industry. Nevertheless, in spite of these inspections, the part contained

F-111 aircraft have unique ability to perform difficult missions night or day, in good weather or bad.





a defect that escaped detection.

General Dynamics and the Air Force are seeking to devise extraordinary methods and procedures for inspection. These probably will represent new and more demanding inspection standards for the entire industry wherever advanced materials are used on high-performance aircraft.

Early in 1970 we submitted our technical and management proposals for the B-1. Formerly called AMSA (Advanced Manned Strategic Aircraft) the B-1 is scheduled to be the high-performance strategic aircraft of the 1970s for the Strategic Air Command of the United States Air Force. We are in competition with two other companies for a development contract on this program.

Three tactical missile systems continued in production during 1969—Standard ARM, Standard Missile and Redeye.

The original version of Standard

ARM has been succeeded on the production line by a missile system with improved guidance capabilities and more effective response to countermeasures. The system consists of a medium range Standard Missile modified to be carried and launched from Navy A-6B and Air Force F-105F aircraft. Its mission is location and destruction of hostile ground-based radar installations.

Standard Missiles, being produced in two versions for extended and medium range, will eventually replace Terrier and Tartar missiles for shipboard fleet defense.

The United States Army in Europe is equipped with the shoulder-fired Redeye missile. The four-foot-long heat-seeking missile is designed to protect infantrymen from low-flying enemy aircraft.

New guided-missile-system concepts being investigated include an air-to-surface missile and an air defense system for the Navy, surface-

to-air missile systems for the Army and an air-to-air missile for the Air Force.

Successful completion of field trials for the unmanned surveillance drone system, AN/USD-501, were accomplished late in the year. The trials were carried out by representatives of the three participating countries, Canada, Great Britain and Germany.

Production is now under way at Canadair Limited on a production order of 282 drone sets for the three countries under a \$69 million contract. The drone system, originally called the CL-89, is a self-contained mobile system that is based on the use of a simple, low-cost drone that carries sensor equipment and is recoverable. The drone can be programmed to fly over enemy territory and return to a pre-arranged recovery area with its film. The drone is then available for further missions.

Deliveries began during the year





of CL-215 amphibious water bombers designed to fight forest fires, and CF-5 and NF-5 fighter aircraft. Deliveries of these aircraft are scheduled to continue in 1970.

After designing and tooling up, assigning thousands of employees to the program and adding a large amount of new manufacturing equipment, we began production work during the year on the major portion of the fuselage for the DC-10 commercial jetliner. This work is being done under subcontract to McDonnell Douglas.

Early in 1970 we delivered to McDonnell Douglas the first forward fuselage segment. Under the contract we are producing all of the fuselage for the DC-10 except the nose and tail sections. Included are the main passenger cabin, cargo and baggage compartments and the galley compartment under the floor.

New production contracts were received for both Atlas and Centaur.

A \$14 million contract was awarded for the manufacture of six Atlas space launch vehicles and for the conversion of one Air Force launch vehicle. A \$25 million contract was awarded to design and build the first of a new series of improved Centaurs. Centaur was the first liquid hydrogen-liquid oxygen propelled rocket developed by the United States. The improved version of Centaur primarily involves new technical developments that have occurred since Centaur was first designed. The new Centaur is designed to be compatible with the Titan III booster as well as with Atlas SLV-3.

The standard Atlas-Centaur system was selected as the launch vehicle for four Intelsat IV worldwide communications satellite launches. This is the first commercial use of Atlas-Centaur.

Besides production of new Atlases and Centaurs, we continued modi-

Photos from left to right:

Electronic unit is installed on Centaur rocket. The first of a new series of improved Centaurs was ordered by NASA in 1969.

Surveillance drones that take aerial photographs have been tested under field conditions and are now in production.

Huge fuselage sections take shape for the McDonnell Douglas DC-10 trijet. Most of the fuselage is produced by General Dynamics.





fying and launching refurbished Atlas missiles for the Air Force's ballistic missile re-entry systems program. These launches will continue in 1970.

Atlas and Atlas-Centaur continued to launch major NASA and Air Force missions. Early in the year, Atlas-Centaur boosters successfully launched for NASA the United States Mariner Mars 6 and 7 spacecraft. Mariner 6 completed its 156-day Earth-to-Mars journey when it reached a point in space only 2,000 miles from the planet. Mariner 7 flew by Mars on a similar mission later in the year.

We completed the first production order of airborne display equipment for the Navy's antisubmarine aircraft program. The display system is the link between man and the computer, which receives submarine intelligence from acoustic sensors in the water. Production is continuing on this program.

## Marine

During the year we delivered four new submarines, including two prototypes— NR-1, the first nuclear-powered research submarine, and USS *Narwhal*, which is designed to be technically superior to all previous attack submarines. We completed the overhaul and refueling of two submarines, completed the post-shakedown work for five attack submarines and launched two attack submarines.

Of particular significance was the fact that we met or exceeded all scheduled completion dates on overhauls and deliveries during 1969.

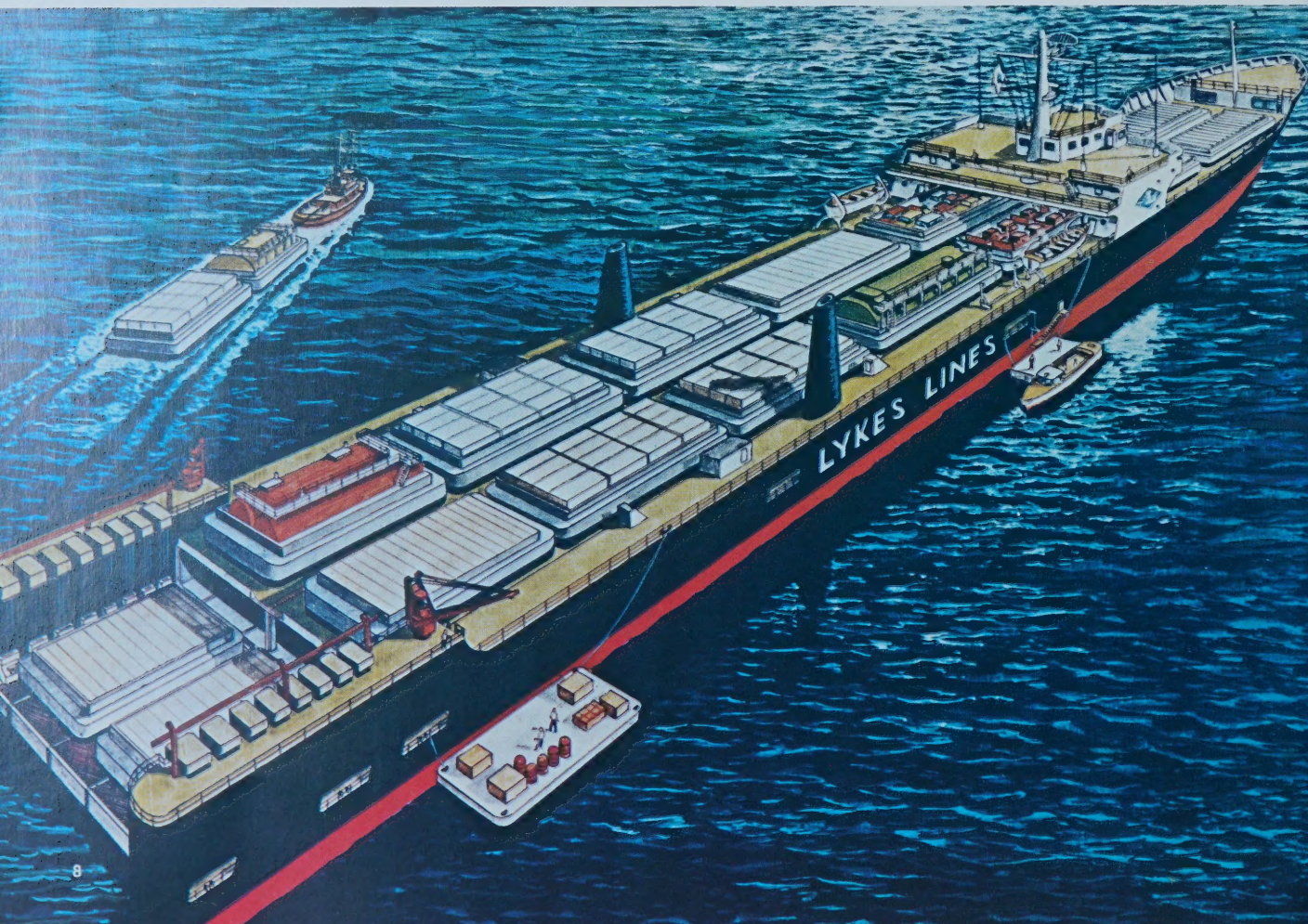
We started construction on two new attack submarines in 1969 and we began the Navy's first conversion of a Polaris submarine to Poseidon missile capability. Later in the year, the second Poseidon conversion was initiated. At the same time,

work continued under a study contract for an advanced submarine system, the ULMS (Undersea Long-Range Missile System).

Contracts for construction of new submarines totaled nine at the beginning of 1970. There were six submarines under contract for Poseidon conversions and we had an assortment of overhaul and repair work.

Our surface shipbuilding facility, the Quincy Shipbuilding division, passed several important milestones during the year.

The division, formerly called the Quincy division, delivered the first two replenishment oilers to the Navy during the year. The division is currently working on four more replenishment oilers. *Portland*, a dock landing ship, was christened. She is the first of four LSDs to be built at Quincy. *L.Y. Spear*, the first of two submarine tenders under contract, was delivered early in 1970.





Late in the year we cut the first steel to start construction of three barge ships for Lykes Bros. Steamship Company, Inc. Described by Lykes as the world's largest and most versatile transports, the ships will be the first commercial vessels built by General Dynamics at Quincy. They will be able to load and unload the barges they carry without ever entering congested port areas or tying up to a dock.

During its first six years under General Dynamics management, the Quincy facility delivered 12 ships to the United States Navy—three electronic instrumentation ships for Project Apollo, four nuclear attack submarines, two ammunition ships, two fleet replenishment oilers and one submarine tender.

At the end of 1969 the division had 13 ships under contract or construction. Valued at approximately \$405 million, the ships are two submarine tenders, four fleet replen-

ishment oilers, four landing ship docks and three cargo transports for Lykes Bros.

We were awarded a contract by the United States Coast Guard to design and build five large ocean navigation stations for use as lightship replacements around the United States. They will be much like the station that has been deployed off Sandy Hook, New Jersey, for the past two years.

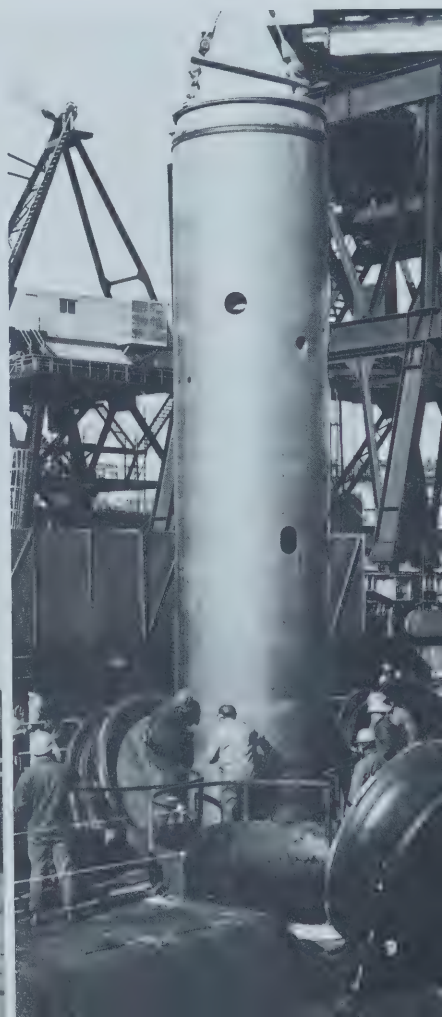
We are designing for the Navy the world's first deep-sea laboratory for testing sonar systems. The Atlantic Undersea Test and Evaluation Center sonar range in the Grand Bahamas will be the first research and development facility to compare actual and predicted performances of sonar systems in operational and acoustical environments like those encountered during fleet operation at sea. A central element in this complex will be a system we developed for ultradensity data recording.

Photos from left to right:

Construction began in 1969 on the first of three merchant ships for Lykes Bros. Steamship Co.

*L. Y. Spear*, the first of two submarine tenders under contract, was delivered to the Navy.

Work continued on *James Madison*, the first Polaris submarine to undergo conversion to Poseidon missile capability.





## Telecommunications

Stromberg-Carlson's primary market, the independent telephone industry, is being spurred by development in the rural and suburban areas of America, which the majority of the independent telephone companies serve. As a result, their rate of growth exceeds that of the Bell System.

Sales and installation of electro-mechanical switching products and related equipment represented a major portion of 1969 sales volume. Installations of new telephone exchange systems averaged nearly one every working day in 1969.

By year-end, two electronic switching systems had been installed by Stromberg-Carlson for the Mid-Continent Telephone Corp. Disney World chose Stromberg-Carlson's new generation of CROSSREED electronic private branch exchanges to serve the vast recreational

complex being built in Florida. The larger CROSSREED electronic switching center was chosen as the central office for the new city growing around the recreational center.

Orders had been received for 15 electronic switching systems by year-end. A larger version of these systems, designed for telephone central office installations of up to 10,000 lines, is scheduled for field testing this year.

As a bridge between existing electromechanical systems and the more advanced electronic equipment, Stromberg-Carlson is marketing a line of switching system controls that give electromechanical exchanges many of the sophisticated communication features of the new electronic equipment, thereby providing for more efficient use of existing exchange equipment.

Stromberg-Carlson's production of common control equipment is expected to double during 1970.

To meet the demand for its products, Stromberg-Carlson began construction of two major plant additions in 1969. A new facility is being built at the Rochester, N.Y., plant to produce specialized integrated circuits for use in advanced electronic products. This facility will provide quality and cost control of the tiny electronic circuits that are critical to the performance of our advanced telephone switching systems. At the Charlottesville, Va., plant, manufacturing space is being enlarged by about 30 percent to increase production of telephone instruments and some switching products.

A new market for communications equipment emerged during the year as a result of judicial and regulatory agency rulings that allow privately owned equipment to be connected to the nationwide telephone network. Such equipment as private telephone exchanges, telephone instruments and data terminals can now be sold





by Stromberg-Carlson and other manufacturers directly to users for interconnection. The decisions, therefore, expand the potential for Stromberg-Carlson products. We are now evaluating approaches to meet the opportunity of this new market.

## Data Products

Stromberg DatagraphiX broadened its line and increased its effort during 1969 to further develop the market for computer-output-microfilm systems.

The number of branch offices was increased from 11 to 25. DatagraphiX systems—recorders, viewers, printers and peripheral equipment that convert computer-generated data into readable text and record it on microfilm at high speed—are now in use in a variety of industries.

Banks, life insurance companies

and firms such as E. F. Hutton & Co., J. C. Penney, Southern California Edison and United Airlines use DatagraphiX equipment. The Social Security Administration uses DatagraphiX equipment for individual accounts status, the State of Illinois for license plate and registration records and the Internal Revenue Service for taxpayer records.

DatagraphiX computer recorders have also produced the *Random House Dictionary of the English Language*, set type for a major San Francisco lithographer, plotted orbits for the space program, and charted football plays for professional teams.

Capabilities of the recorders were greatly expanded in 1969 with the development of a new camera for computer output microfilming systems, enabling the user to record data on either microfilm or microfiche without costly external operations.

Photos from left to right:

Work progresses on developing the world's first ocean laboratory for testing sonar systems.

Stromberg DatagraphiX produces microfilm viewers for use in management information systems.

Microfiche from Stromberg DatagraphiX systems contains up to 240 pages of data in 4-by-6-inch area.

Stromberg-Carlson's electronic private branch exchange began serving telephone subscribers in 1969.





With the addition of its new tape drives in 1969, DatagraphiX offers customers complete computer-to-microfilm-to-hardcopy systems. DatagraphiX in 1969 introduced its own brand of microfilm and offered paper and chemical supplies.

DatagraphiX is also the sole distributor in this country of KALVAR duplicating film and three KALVAR duplicators. These developments have led to the formation of a new supplies marketing organization.

## Resources

Building material volume and income were at a satisfactory level for the year, despite completion of supply contracts for several major highway projects and the tight money situation that delayed both commercial and municipal construction projects.

Major contracts were received for building materials for a number of new construction projects in the Chicago area, including the First National Bank, a Texaco oil refinery, University of Illinois, DePaul University, Chicago Housing Authority and O'Hare Airport.

Except for highway activity, our prime building material markets—commercial, industrial and high-rise construction—were at record levels in the Chicago area in 1969.

A four-month strike hurt sales and earnings in our lightweight concrete and aggregate business. The unmet demand for all kinds of construction in our market area is particularly strong and major projects are being started despite credit stringencies.

Material Service increased its raw material resources and modernized plant and equipment. Additional aggregate reserves were acquired at four of nine operating locations. A new Redi-Mix concrete distribution

yard was opened in the fast growing area west of Chicago. Three low-profit distribution yards were closed.

Important additions to facilities included replacements in our Redi-Mix truck fleet, expansion of a stone chip plant, expansion of a mineral filler plant and erection of a new warehouse and distribution facility for building materials handled on a resale basis. We continued our program to replace on a planned expenditure basis end-loaders, quarry trucks and other vehicles in our more than 600-unit equipment transportation fleet. We also took delivery on a new computer and constructed a new computer systems facility that provides us with significant improvements in data processing capability.

Our lime business was at a satisfactory level in 1969. The steel industry's continuing conversion from open hearth furnaces to basic oxygen furnaces was responsible for





high demand for both high-calcium lime and dolomitic lime.

There was expansion in our brick business, which operates as part of our Marblehead Lime operations.

A new kiln began operation at Darlington Brick to manufacture standard red face brick to supplement the higher-priced custom color line of glazed and face brick. The brick business was expanded by the purchase of Powell & Minnock Brick Works, Inc. Located near Albany, N.Y., Powell & Minnock is a manufacturer of common brick for metropolitan New York City and northeastern United States markets.

The demand for coal by electrical utilities and industrial plants continued strong and production increased over 1968 levels. However, production was again hampered by work stoppages caused by labor difficulties, miner absenteeism and rail car shortages.

There was continued progress at

the new Orient No. 6 mine in Waltonville, Ill. This mine has a scheduled annual production of three million tons of coal. Later this year, when work is completed on the metallurgical coal cleaning plant, Orient No. 6 will be one of the most efficient and versatile coal mining operations in the Midwest.

Asbestos production increased again at Asbestos Corporation's mines in Canada reflecting the strong market demand for asbestos. Asbestos Corporation, Canada's largest independent asbestos fiber producer, has undertaken an expansion program at one of its mines that will increase the company's ore milling capacity by more than 11%. The expansion is scheduled for completion this year.

In the latter part of 1969 and early 1970, plans were substantially completed for the development of Asbestos Corporation's rich ore deposit in northern Quebec.

Photos from left to right:

At Freeman Coal's new deep-shaft mine, Orient No. 6, coal is stored before loading on unit train.

Surface mines of Asbestos Corporation Limited continued record output of this versatile mineral.

Against a background of downtown Chicago, construction materials are unloaded at Material Service's Yard #1.





# Ten Year History 1960-1969

Dollars in thousands, except per share amounts

## Sales and Income

|      | Sales       | Income Before<br>Extraordinary<br>Items | Extraordinary<br>Items | Net<br>Income | Per Common Share                        |                        |               |
|------|-------------|-----------------------------------------|------------------------|---------------|-----------------------------------------|------------------------|---------------|
|      |             |                                         |                        |               | Income Before<br>Extraordinary<br>Items | Extraordinary<br>Items | Net<br>Income |
| 1969 | \$2,508,800 | \$ 2,500                                | \$ —                   | \$ 2,500      | \$ .24                                  | \$ —                   | \$ .24        |
| 1968 | 2,662,200   | 29,800                                  | 8,900                  | 38,700        | 2.83                                    | .85                    | 3.68          |
| 1967 | 2,253,300   | 51,300                                  | 5,700                  | 57,000        | 4.91                                    | .55                    | 5.46          |
| 1966 | 1,797,000   | 53,900                                  | 4,500                  | 58,400        | 5.16                                    | .43                    | 5.59          |
| 1965 | 1,472,800   | 49,300                                  | —                      | 49,300        | 4.48                                    | —                      | 4.48          |
| 1964 | 1,579,900   | 42,600                                  | —                      | 42,600        | 3.77                                    | —                      | 3.77          |
| 1963 | 1,415,100   | 32,800                                  | —                      | 32,800        | 3.28                                    | —                      | 3.28          |
| 1962 | 1,898,500   | 29,000                                  | —                      | 29,000        | 2.90                                    | —                      | 2.90          |
| 1961 | 2,062,400   | (69,400)                                | —                      | (69,400)      | (6.95)                                  | —                      | (6.95)        |
| 1960 | 1,987,700   | (27,100)                                | —                      | (27,100)      | (2.71)                                  | —                      | (2.71)        |

## Share Owners' Data

|      | Share Owners' Equity |           | Shares Outstanding |            | Common<br>Share Owners<br>of Record | Cash Dividends |          |
|------|----------------------|-----------|--------------------|------------|-------------------------------------|----------------|----------|
|      | Amount               | Per Share | Preference         | Common     |                                     | Preference     | Common   |
| 1969 | \$328,500            | \$31.17   | —                  | 10,538,712 | 53,156                              | \$ —           | \$10,500 |
| 1968 | 335,800              | 31.94     | —                  | 10,513,476 | 50,136                              | —              | 10,500   |
| 1967 | 336,100              | 32.21     | —                  | 10,435,706 | 54,145                              | —              | 10,400   |
| 1966 | 286,100              | 27.71     | —                  | 10,324,596 | 63,104                              | 700            | 10,300   |
| 1965 | 282,800              | 23.35     | 787,268            | 10,152,968 | 66,813                              | 8,600          | 10,100   |
| 1964 | 299,600              | 19.78     | 1,663,384          | 10,015,259 | 73,216                              | —              | —        |
| 1963 | 256,600              | 15.99     | 1,663,634          | 9,997,992  | 79,848                              | —              | —        |
| 1962 | 170,500              | 7.38      | 1,664,302          | 9,997,290  | 85,028                              | —              | —        |
| 1961 | 117,700              | 2.09      | 1,664,516          | 9,997,064  | 86,815                              | —              | 2,500    |
| 1960 | 289,200              | 16.95     | 2,064,516          | 9,982,079  | 87,750                              | —              | 14,900   |



**Financial Position**

|             |                    | Property,<br>Plant and Equipment |                                |                 |                   |
|-------------|--------------------|----------------------------------|--------------------------------|-----------------|-------------------|
|             | Working<br>Capital | Net                              | Depreciation<br>& Amortization | Total<br>Assets | Long-Term<br>Debt |
| <b>1969</b> | \$163,600          | \$316,400                        | \$49,900                       | \$1,066,100     | \$127,400         |
| <b>1968</b> | 142,900            | 243,900                          | 45,900                         | 865,900         | 71,900            |
| <b>1967</b> | 165,500            | 284,900                          | 38,000                         | 910,200         | 125,900           |
| <b>1966</b> | 157,500            | 237,800                          | 32,700                         | 758,700         | 131,200           |
| <b>1965</b> | 183,600            | 210,200                          | 30,700                         | 670,400         | 110,000           |
| <b>1964</b> | 205,700            | 192,900                          | 32,200                         | 623,100         | 92,800            |
| <b>1963</b> | 188,500            | 190,100                          | 34,200                         | 626,100         | 125,700           |
| <b>1962</b> | 128,100            | 170,800                          | 34,700                         | 655,700         | 148,500           |
| <b>1961</b> | 49,700             | 192,800                          | 31,700                         | 816,400         | 150,000           |
| <b>1960</b> | 222,000            | 191,500                          | 30,100                         | 917,500         | 147,600           |

**General Information**

|             | Funded<br>Backlog | Capital<br>Improvement<br>Expenditures | Employees | Wages<br>and<br>Salaries |
|-------------|-------------------|----------------------------------------|-----------|--------------------------|
| <b>1969</b> | \$1,300,000       | \$50,000                               | 103,600   | \$979,700                |
| <b>1968</b> | 2,089,000         | 60,100                                 | 101,400   | 920,600                  |
| <b>1967</b> | 2,372,000         | 97,000                                 | 103,200   | 859,800                  |
| <b>1966</b> | 1,651,000         | 62,100                                 | 93,200    | 763,400                  |
| <b>1965</b> | 1,295,000         | 48,600                                 | 84,600    | 697,000                  |
| <b>1964</b> | 1,129,000         | 35,600                                 | 84,200    | 729,100                  |
| <b>1963</b> | 1,159,000         | 35,400                                 | 85,900    | 664,200                  |
| <b>1962</b> | 975,000           | 20,600                                 | 84,500    | 704,400                  |
| <b>1961</b> | 1,700,000         | 33,700                                 | 106,000   | 760,900                  |
| <b>1960</b> | 2,550,000         | 39,800                                 | 105,700   | 684,400                  |

**Notes:**

The Corporation distributed to its share owners, in the form of a tax-free dividend, its interest in Liquid Carbonic Industries, Inc. on January 2, 1969. In the accompanying history, the distribution was treated as accomplished on December 31, 1968. Consolidated net income includes earnings of Liquid Carbonic of \$3,027,000 on sales of \$68,300,000 in 1968 after deducting interest on the Corporation's long-term indebtedness it assumed prior to the distribution.

Net income is before tax reductions of \$16,917,000 in 1963 and \$23,850,000 in 1962 resulting from the 1961 loss carryforward. These tax reductions have been added to the income tax credit and deducted from the net loss for 1961. In addition, the 1961 net loss has been further reduced by the \$33,000,000 special credit recorded in 1963. This special credit resulted from reduction in losses provided in 1961 on the commercial jet transport program by reason of cost savings and performance achievements subsequently realized.

Dividends on the convertible preference stock issued in 1959 were cumulative from and after January 1, 1964, at the annual rate of \$2.90625 per share. Dividends on convertible preference stock paid in 1965 included \$3,800,000 for 1965 and \$4,800,000 for 1964. Net income per common share is after deducting dividends applicable to preference stock. In April, 1966, the Corporation redeemed all shares of convertible preference stock then outstanding.

Share owners' equity per common share has been computed by deducting the liquidating value of the then outstanding convertible preference stock and accrued unpaid dividends.



**Consolidated Balance Sheet**

December 31, 1969 and 1968

Dollars in thousands

| <b>Assets</b>                                                                                       | <b>1969</b>        | <b>1968</b>      |
|-----------------------------------------------------------------------------------------------------|--------------------|------------------|
| <hr/>                                                                                               |                    |                  |
| <b>Current Assets</b>                                                                               |                    |                  |
| Cash .....                                                                                          | \$ 31,954          | \$ 34,600        |
| Accounts receivable—United States and Canadian Governments .....                                    | 44,333             | 40,565           |
| Other trade receivables, less reserves .....                                                        | 75,291             | 60,252           |
| Unreimbursed expenditures and estimated profits on<br>long-term contracts in process (Note 1) ..... | 327,699            | 272,159          |
| Inventories, at the lower of cost or market, less advance and progress payments .....               | 224,404            | 172,870          |
| Prepaid expenses .....                                                                              | <u>7,394</u>       | <u>6,066</u>     |
| Total Current Assets .....                                                                          | <u>711,075</u>     | <u>586,512</u>   |
| <br><b>Other Assets</b>                                                                             |                    |                  |
| Equity in net assets of unconsolidated subsidiaries (Note 2) .....                                  | 12,341             | 5,771            |
| Receivables not currently due and other assets .....                                                | <u>26,279</u>      | <u>29,708</u>    |
|                                                                                                     | <u>38,620</u>      | <u>35,479</u>    |
| <br><b>Property, Plant and Equipment, at cost (Note 3)</b>                                          |                    |                  |
| Land and improvements .....                                                                         | 27,674             | 26,466           |
| Mineral areas .....                                                                                 | 59,041             | 16,463           |
| Buildings and improvements .....                                                                    | 153,438            | 131,524          |
| Machinery and equipment .....                                                                       | <u>483,834</u>     | <u>420,870</u>   |
|                                                                                                     | 723,987            | 595,323          |
| Less—accumulated depreciation, depletion and amortization .....                                     | <u>407,600</u>     | <u>351,382</u>   |
|                                                                                                     | <u>316,387</u>     | <u>243,941</u>   |
|                                                                                                     | <u>\$1,066,082</u> | <u>\$865,932</u> |



| <b>Liabilities and Share Owners' Equity</b>                             | <b>1969</b>        | <b>1968</b>      |
|-------------------------------------------------------------------------|--------------------|------------------|
| <b>Current Liabilities</b>                                              |                    |                  |
| Notes payable and current installments on long-term debt (Note 4) ..... | \$ 69,710          | \$ 51,606        |
| Bank drafts payable .....                                               | 26,658             | 37,929           |
| Accounts payable and accrued expenses .....                             | 404,013            | 310,773          |
| Accrued salaries and wages .....                                        | 47,086             | 43,290           |
| Total Current Liabilities .....                                         | <u>547,467</u>     | <u>443,598</u>   |
| <b>Non-Current Liabilities</b>                                          |                    |                  |
| Long-term debt (Notes 4 and 9) .....                                    | 127,380            | 71,934           |
| Other liabilities, including deferred revenue .....                     | 19,901             | 10,951           |
| Deferred income taxes (Note 6) .....                                    | 13,590             | 3,693            |
|                                                                         | <u>160,871</u>     | <u>86,578</u>    |
| <b>Minority Interest in Subsidiaries</b> (Note 8) .....                 | <u>29,287</u>      | <u>—</u>         |
| <b>Share Owners' Equity</b> (Note 5)                                    |                    |                  |
| Preferred stock .....                                                   | —                  | —                |
| Common stock, outstanding 10,538,712 shares at end of 1969              |                    |                  |
| after deducting 35,000 shares in Treasury .....                         | 10,539             | 10,513           |
| Capital surplus .....                                                   | 52,125             | 51,446           |
| Retained earnings (Note 4) .....                                        | 265,793            | 273,797          |
|                                                                         | <u>328,457</u>     | <u>335,756</u>   |
|                                                                         | <u>\$1,066,082</u> | <u>\$865,932</u> |

The accompanying notes to financial statements are an integral part of these balance sheets.



**Statement of Consolidated Source and Use of Funds**

For the Years Ended December 31, 1969 and 1968

|                                                                    | 1969              | 1968              |
|--------------------------------------------------------------------|-------------------|-------------------|
| <b>Source of Funds</b>                                             |                   |                   |
| Net income .....                                                   | \$ 2,531          | \$ 38,683         |
| Depreciation, depletion and amortization .....                     | 49,878            | 45,931            |
| Increase (decrease) in long-term debt .....                        | 55,446            | (4,296)           |
| Working capital of acquired (divested) companies (Note 8) .....    | 9,509             | (22,842)          |
| Minority interest in subsidiary's income, net of dividends .....   | 1,556             | —                 |
| Sale of receivables to finance subsidiary .....                    | 1,919             | 11,608            |
|                                                                    | <u>120,839</u>    | <u>69,084</u>     |
| <b>Use of Funds</b>                                                |                   |                   |
| Expenditures for property .....                                    | 50,032            | 60,134            |
| Payment of cash dividends .....                                    | 10,535            | 10,470            |
| Acquisition of capital stock of Asbestos Corporation Limited ..... | 27,089            | 14,054            |
| Additional investment in finance subsidiaries .....                | 6,570             | 2,580             |
| Manufacture of equipment held for lease to others .....            | 4,479             | 4,407             |
| Other .....                                                        | 1,440             | (14)              |
|                                                                    | <u>100,145</u>    | <u>91,631</u>     |
| <b>Working Funds</b>                                               |                   |                   |
| Increase (decrease) for year .....                                 | 20,694            | (22,547)          |
| At beginning of year .....                                         | 142,914           | 165,461           |
| At end of year .....                                               | <u>\$ 163,608</u> | <u>\$ 142,914</u> |



**Statement of Consolidated Income**

For the Years Ended December 31, 1969 and 1968

|                                                                                        | 1969             | 1968             |
|----------------------------------------------------------------------------------------|------------------|------------------|
| <b>Income</b>                                                                          |                  |                  |
| Net sales .....                                                                        | \$2,508,755      | \$2,662,238      |
| Other income, net .....                                                                | <u>1,779</u>     | <u>3,762</u>     |
|                                                                                        | <u>2,510,534</u> | <u>2,666,000</u> |
| <b>Cost and Expenses</b>                                                               |                  |                  |
| Cost of sales .....                                                                    | 2,502,835        | 2,613,191        |
| Interest .....                                                                         | 16,758           | 10,922           |
| Income taxes (Note 6) .....                                                            |                  |                  |
| Provision (credit) for income taxes before investment tax credit .....                 | (10,159)         | 16,933           |
| Investment tax credit .....                                                            | (4,176)          | (4,802)          |
| Minority interest in net income of subsidiary (Note 8) .....                           | <u>2,745</u>     | <u>—</u>         |
|                                                                                        | <u>2,508,003</u> | <u>2,636,244</u> |
| <b>Income before Extraordinary Item</b> .....                                          | 2,531            | 29,756           |
| <b>Extraordinary Item</b> —Gain on sale of General Atomic Division, net of taxes ..... | <u>—</u>         | <u>8,927</u>     |
| <b>Net Income</b> .....                                                                | <u>\$ 2,531</u>  | <u>\$ 38,683</u> |
| <b>Net Income Per Common Share</b>                                                     |                  |                  |
| Income before extraordinary item .....                                                 | \$ .24           | \$ 2.83          |
| Extraordinary item .....                                                               | <u>—</u>         | <u>.85</u>       |
| Net income .....                                                                       | <u>\$ .24</u>    | <u>\$ 3.68</u>   |

**Statement of Consolidated Retained Earnings**

For the Years Ended December 31, 1969 and 1968

|                                                                    | 1969              | 1968              |
|--------------------------------------------------------------------|-------------------|-------------------|
| <b>Retained Earnings</b> at beginning of year .....                | \$ 273,797        | \$ 276,495        |
| <b>Net Income</b> .....                                            | 2,531             | 38,683            |
| <b>Deduct</b>                                                      |                   |                   |
| Dividends — Cash paid to common share owners (\$1 per share) ..... | (10,535)          | (10,470)          |
| — Net assets of Liquid Carbonic Industries, Inc.                   |                   |                   |
| at date of divestiture (Note 8) .....                              | <u>—</u>          | <u>(30,911)</u>   |
| <b>Retained Earnings</b> at end of year (Note 4) .....             | <u>\$ 265,793</u> | <u>\$ 273,797</u> |

The accompanying notes to financial statements are an integral part of these statements.

## Notes to Financial Statements

### 1. Accounting for Long-Term Contracts

Profits are recorded on substantially all long-term contracts prior to completion thereof where, in the opinion of management, such profits can be reasonably estimated after taking into consideration the stage of completion and the estimated final costs and prices. Estimated losses on long-term contracts are recorded in full as soon as they can be identified. The consolidated statement of income reflects after tax losses on certain long-term shipbuilding contracts of approximately \$53 million in 1969 and \$42 million in 1968.

### 2. Unconsolidated Finance Subsidiaries

Certain unconsolidated finance subsidiaries purchase from the Corporation or consolidated subsidiaries (a) notes issued by independent telephone companies in connection with the sale of telephone equipment, and (b) notes and other receivables resulting from aircraft sales and equipment leases. Following is a summary of the combined balance sheets of the finance subsidiaries as of December 31, 1969:

|                                                             |                      |
|-------------------------------------------------------------|----------------------|
| Notes receivable from independent telephone companies ..... | \$117,440,000        |
| Receivables on aircraft sales and other notes .....         | 35,664,000           |
| Cash and other assets .....                                 | 1,885,000            |
|                                                             | <u>\$154,989,000</u> |
| Notes payable .....                                         | \$101,114,000        |
| Bank loans and other short-term borrowings .....            | 38,400,000           |
| Other liabilities .....                                     | 3,444,000            |
| Share owners' equity .....                                  | 12,031,000           |
|                                                             | <u>\$154,989,000</u> |

The Corporation or a consolidated subsidiary has guaranteed payment of the notes payable, banks loans, and other short-term borrowings and in the event of default has agreed to repurchase notes and receivables on aircraft sales.

### 3. Properties

The Corporation leases from the United States Government substantial portions of plant facilities used in the operation of certain divisions.

The major portion of plant and equipment owned by the Corporation is being depreciated on an accelerated basis.

### 4. Long-Term Debt

Long-term debt at December 31, 1969, was as follows:

|                                                                                                                                |                      |
|--------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Notes Payable to an insurance company, 5%-5.2% .....                                                                           | \$ 66,470,000        |
| Notes Payable to banks under Credit Agreement, at prime rate until<br>December 31, 1970, plus ¼ % above prime thereafter ..... | 60,000,000           |
| Other .....                                                                                                                    | 8,408,000            |
|                                                                                                                                | <u>134,878,000</u>   |
| Less—Amounts due within one year (included in current liabilities on<br>balance sheet) .....                                   | 7,498,000            |
|                                                                                                                                | <u>\$127,380,000</u> |



The notes payable to an insurance company are payable as follows: \$5,529,000 in 1970 through 1977, \$16,239,000 in 1978, \$4,000,000 in 1979 and the balance of \$2,000,000 in 1980. The notes payable to banks under the Credit Agreement of February, 1969, are payable in twenty equal quarterly installments commencing March 31, 1971 (\$12,000,000 annually).

Under the most restrictive provisions of the long-term debt agreements, \$13,237,000 of the Corporation's retained earnings of \$265,793,000 were unrestricted as to the payment of dividends as of December 31, 1969. In addition, the Corporation is required to maintain \$125,000,000 of working capital and \$300,000,000 of net worth.

**5. Capital Stock** The capital stock of the Corporation consists of 30,000,000 shares of \$1 par value common stock and 1,500,000 shares of \$1 par value preferred stock issuable in series, with the rights, preferences and limitations of each series to be determined by the Board of Directors.

Under the terms of the Corporation's 1964 Qualified Stock Option Plan, as amended, options to acquire an aggregate of 900,000 shares of common stock may be granted for issuance to employees at not less than the fair market value at the date of grant. Options are for a term of not more than five years. The terms and conditions under which options become exercisable are prescribed by the Stock Option Committee, appointed by the Board of Directors. Options outstanding at December 31, 1969 become exercisable in cumulative installments of 25% on each of the first four anniversaries of the date of grant.

Under the Corporation's 1951 Restricted Stock Option Plan, options were granted for a seven-year period at 95% of the fair market value on the date granted. All options under this Plan have been exercised and no additional options may be granted.

Information with respect to options for the year 1969 under each of the plans is summarized below:

|                                                | Qualified Plan      | Restricted Plan |
|------------------------------------------------|---------------------|-----------------|
| Number of shares under stock options:          |                     |                 |
| Outstanding January 1, 1969 . . . . .          | 347,660             | 13,170          |
| Add (deduct):                                  |                     |                 |
| Granted . . . . .                              | 286,716             | —               |
| Exercised . . . . .                            | (12,066)            | (13,170)        |
| Cancelled . . . . .                            | (81,890)            | —               |
| Outstanding December 31, 1969 . . . . .        | <u>540,420</u>      | <u>—</u>        |
| Aggregate price of shares under stock options: |                     |                 |
| Granted during 1969 . . . . .                  | <u>\$12,690,000</u> | —               |
| Outstanding December 31, 1969 . . . . .        | <u>\$26,012,000</u> | —               |

Of the common stock authorized but unissued, 773,419 shares are reserved for options outstanding or issuable under the Corporation's stock option plan at December 31, 1969. The excess (\$679,000 in 1969 and \$2,291,000 in 1968) of proceeds over par value of common stock issued under options has been credited to capital surplus.

**6. Income Taxes** The income tax provision or credit is computed at current rates on reported results and is adjusted for benefits derived from percentage depletion on mining properties as follows:

|                                                                | 1969           | 1968         |
|----------------------------------------------------------------|----------------|--------------|
| Income (loss) before taxes .....                               | \$(11,804,000) | \$41,887,000 |
| Tax Provision (Credit) .....                                   | \$ (6,022,000) | \$19,614,000 |
| Depletion Credit .....                                         | (4,137,000)    | (2,681,000)  |
| Provision (Credit) for taxes before Investment Tax Credit .... | \$(10,159,000) | \$16,933,000 |

Investment tax credits are reflected in income in the year the related property is placed in service.

Deferred income taxes are applicable primarily to mineral exploration and development costs deducted for tax purposes but not for financial reporting.

United States income tax returns of the Corporation are subject to review by the Internal Revenue Service for all years subsequent to 1964.

**7. Employees' Retirement Plans** The Corporation and its subsidiaries have a number of retirement plans covering substantially all employees. The cost of all plans was \$29,671,000 for 1969 and \$27,239,000 for 1968. The Corporation uses an actuarial cost method under which the entire cost of the plans is funded over the remaining service lives of employees. Accrued retirement costs are paid into trust funds which may be used only for benefits provided by the plans.

**8. Acquisition and Divestiture** In February 1969, the Corporation completed the acquisition of a 54% interest in Asbestos Corporation Limited, a Canadian asbestos mining company. The statement of consolidated income for 1969 includes the operating results of Asbestos and the related minority interest since the date of acquisition.

As of December 31, 1968, the Corporation distributed to its share owners, in the form of a tax-free dividend, its interest in Liquid Carbonic Industries, Inc. and subsidiaries. The distribution complied with a 1966 Federal District Court order under which the Corporation was required to divest itself of Liquid Carbonic. The statement of consolidated income for 1968 includes sales and earnings applicable to Liquid Carbonic of \$68,300,000 and \$3,027,000 respectively.

**9. Contingent Liabilities** A substantial portion of sales for 1965 through 1969 is subject to review by the United States Renegotiation Board. Management believes that the Corporation will not be required to make refunds under the Renegotiation Act of 1951, and consequently no provision has been made therefor.

The Corporation remains contingently liable on approximately \$46,700,000 of long-term debt which was assumed by Houston Natural Gas Corporation in connection with the divestiture of Liquid Carbonic Industries, Inc. and its subsequent merger with Houston.

In addition, there were other contingent liabilities with respect to guarantees, lawsuits and other matters arising in the ordinary course of business. In the opinion of management, reasonable reserves have been provided for contingent liabilities.



## Auditors' Report

---

To the Share Owners and the Board of Directors of General Dynamics Corporation:

We have examined the consolidated balance sheet of General Dynamics Corporation (a Delaware corporation) and subsidiaries as of December 31, 1969 and 1968, and the related statements of consolidated income, retained earnings and source and use of funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were unable to obtain confirmation of receivables from the United States Government; however, we have applied other auditing procedures as to such receivables. The financial statements of Canadair Limited, a consolidated subsidiary, were examined by other auditors and we were furnished with their reports on such financial statements.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the accompanying financial statements present fairly the financial position of General Dynamics Corporation and subsidiaries as of December 31, 1969 and 1968, and the results of their operations and the source and use of funds for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

New York, N.Y.,  
January 23, 1970.

Arthur Andersen & Co.

## Officers

|                        |                                                                                                                                                                                                                                                                                           |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>President</b>       | Roger Lewis                                                                                                                                                                                                                                                                               |
| <b>Vice Presidents</b> | Lloyd Bergeson<br>Jack L. Bowers<br>Frank W. Davis<br>Max Golden<br>Roger I. Harris<br>John T. Hayward<br>Edward H. Heinemann<br>Algie A. Hendrix<br>Charles F. Horne<br>Edward J. LeFevre<br>J. T. MacDonald<br>George E. Mueller<br>Frank Nugent<br>Joseph D. Pierce<br>John A. Sargent |
| <b>Secretary</b>       | John P. Maguire                                                                                                                                                                                                                                                                           |
| <b>Treasurer</b>       | Harold K. Pedersen                                                                                                                                                                                                                                                                        |
| <b>Comptroller</b>     | David L. Thomas                                                                                                                                                                                                                                                                           |

## Directors

|                           |                                                                                                                                                                                 |
|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Board of Directors</b> | Roger Lewis, Chairman<br>William C. Bolenius<br>H. S. M. Burns<br>Sylvan C. Coleman<br>John F. Floberg<br>Maurice T. Moore<br>John A. Sargent<br>Eric A. Walker<br>Leo D. Welch |
| <b>Advisory Directors</b> | B. Emmet Finucane<br>I. M. Laddon                                                                                                                                               |

## Principal Operating Units

|                     |                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Divisions</b>    | Convair Division, San Diego, California<br>Electric Boat Division, Groton, Connecticut<br>Electronics Division, Rochester, New York<br>Fort Worth Division, Fort Worth, Texas<br>Pomona Division, Pomona, California<br>Quincy Shipbuilding Division, Quincy, Massachusetts                                                                                                                                                            |
| <b>Subsidiaries</b> | Asbestos Corporation Limited, Thetford Mines, Quebec, Canada<br>Canadair Limited, Montreal, Quebec, Canada<br>Freeman Coal Mining Corporation, Chicago, Illinois<br>Marblehead Lime Company, Chicago, Illinois<br>Material Service Corporation, Chicago, Illinois<br>Stromberg-Carlson Corporation, Rochester, New York<br>Stromberg DatagraphiX, Inc., San Diego, California<br>The United Electric Coal Companies, Chicago, Illinois |



## **General Dynamics Corporation**

One Rockefeller Plaza, New York, New York 10020

|                                |                                                                                   |
|--------------------------------|-----------------------------------------------------------------------------------|
| <b>Transfer Agents</b>         | Bankers Trust Company, New York, New York                                         |
|                                | Bank of America National Trust and Savings Association, San Francisco, California |
|                                | The First National Bank of Jersey City, Jersey City, New Jersey                   |
|                                | The First National Bank of Chicago, Chicago, Illinois                             |
|                                | Montreal Trust Company, Montreal, Quebec, and Toronto, Ontario, Canada            |
| <b>Registrars</b>              | The Chase Manhattan Bank, New York, New York                                      |
|                                | Wells Fargo Bank, San Francisco, California                                       |
|                                | American National Bank and Trust Company of Chicago, Chicago, Illinois            |
|                                | The Royal Trust Company, Montreal, Quebec, and Toronto, Ontario, Canada           |
| <b>Stock Exchange Listings</b> | New York Stock Exchange                                                           |
|                                | Midwest Stock Exchange                                                            |
|                                | Pacific Coast Stock Exchange                                                      |
|                                | Montreal Stock Exchange                                                           |
|                                | Toronto Stock Exchange                                                            |
| <b>Auditors</b>                | Arthur Andersen & Co., New York, New York                                         |

**GENERAL DYNAMICS**